

GASB STATEMENT 34 IMPLEMENTATION TASKS & PROCEDURES

Reporting Requirements For MD&A

Task

To research the available literature to become aware of the requirements and possible compilation formats and techniques for the Management's Discussion and Analysis, and to develop procedures to insure that the minimum requirements are met per GASB Statement 34.

Background

One of the most significant changes required by GASB Statement No. 34 will be the governmental version of the Management's Discussion and Analysis (MD&A). The new financial reporting model requires inclusion of this MD&A as required supplementary information (RSI) preceding the basic financial statements. MD&A is similar to the narrative required by the Securities and Exchange Commission (SEC) for its registrants. This MD&A section of the financial report should be brief and objective and should be easily readable by an average reader, one not possessing a detailed knowledge of accounting. Because of this, the use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

The MD&A will analyze the government's financial performance for the year, provide comparisons of the current-year results to the previous year, and discuss both the positive and negative aspects of the comparison. Overall, the emphasis should be on the current year and the focus should be on the primary government. MD&A is both a short-term and long-term analysis of the governments activities, but should be based only on currently known facts (information known as of the date of the auditor's report), decisions, or conditions. The MD&A precedes basic financial statements in the CAFR.

Requirements

Per paragraph 11 of GASB Statement 34, at the very least the MD&A should contain the following information:

1. A brief discussion of the basic financial statements, including their relationships to each other and the significant differences in the information they provide.
2. Condensed financial information derived from the government-wide financial statements comparing the current year to the prior year. This should contain sufficient information to support the analysis mentioned in the next requirement and should include the following elements – total assets (distinguished between capital and other), total liabilities (distinguished between long-term and other), total net

assets (distinguished between its 3 components), program and general revenues by source and total revenues, program expenses by function and total expenses, excess or deficiency (before contributions, special and extraordinary items, and transfers), contributions, special and extraordinary items, transfers, and finally the change in net assets and ending net assets.

3. An analysis of the overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. It should include the reasons for significant changes from the prior year, and any important economic factors that significantly affected the operating results for the year. Also, the analysis should cover both governmental and business-type activities separately.
4. An analysis of balances and transactions for significant changes in individual funds, including the reasons for the changes and whether there are any limitations that may affect the availability of resources for future use.
5. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund, including any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.
6. A description of significant capital assets and long-term debt activity during the year. It should include commitments made for capital expenditures, any changes in credit ratings, and any debt limitations that may affect financing. This should not duplicate the required disclosures in the notes, but may summarize that information and refer to it for details.
7. A description of current known facts (information known as of the date of the auditor's report), decisions, or conditions that are expected to have a significant impact on the financial position or results of operations. As with the analysis of the overall financial position and results of operations, this section should cover both governmental and business-type activities separately.

These minimum requirements are general rather than specific, and GASB encourages the MD&A to effectively report only the most relevant information concerning the government and should not be a "boilerplate" discussion. Also, GASB emphasizes that **only** these issues should be addressed. The "minimum" refers to the minimum amount of information required for **each** of the elements listed. In other words, there is no limit to the amount of information that addresses each of the required elements, but there is a limit to the number of required elements – only those listed.

There is no requirement to discuss matters related to component units, and whether to discuss them is a matter of professional judgement based on the individual component unit's significance with respect to all discrete component units, and the relationship with the primary government. The focus of the MD&A should be on the primary government, and comments should distinguish between information pertaining to the primary government and the component units.

Procedures to Address Each of the Requirements

Procedures must be developed to insure that the minimum requirements are met for the Management's Discussion and Analysis per GASB Statement 34. Procedures should be organized and developed for the required elements of MD&A listed above. Also, procedures must be in place to insure avoidance of duplication of information that could occur with other sections of the CAFR, or to be able to coordinate with areas of the CAFR where similarities may be found. These areas are discussed in more detail in the following sections. A separate procedural document will be developed for the MD&A.

Relationship to the Transmittal Letter

Some of the information that is required to be included in the MD&A has previously been included in the transmittal letter of the CAFR, but there is no requirement for a transmittal letter in the GASB codification. The GASB decided that the MD&A approach was more appropriate and should be required for the basic financial statements outlined in Statement 34. Therefore, governments presenting a transmittal letter in the CAFR are encouraged by GASB not to duplicate any of the information that is contained in the MD&A. The analyst who works on the transmittal letter should have close involvement with MD&A for this reason.

Relationship to the Notes to the Financial Statements

There may be items required in MD&A that will also be disclosed in the notes (subsequent events, contingencies, capital assets and long-term debt, etc.). The preparers of these notes that may have the same type of disclosures as the MD&A should be involved in that portion of the MD&A. For instance the MD&A requirement for a description of significant capital asset and long-term debt activity should not duplicate the required disclosures in the notes, but may summarize that information and refer to it for details.

Format and Compilation Techniques or Alternatives

GASB does not require any specific format to be used for MD&A. The statement only requires that the MD&A precede the basic financial statements as part of the financial section of the CAFR, and that it contain only the required elements listed above. As long as those minimum required elements are met, GASB leaves the specific content up to the judgement of the preparers.

GASB mentions that the MD&A should be objective and easily readable. GASB also mentions that the use of charts, graphs, and tables is encouraged to enhance the

understandability of the information, but does not specify when and where specifically to use them, except that they can't be used in place of the condensed financial statements that are a required element of MD&A. They can be used to elaborate on or supplement those statements, however.

GASB Statement 34 provides a sample MD&A that can be used as a guide, but the MD&A should be developed independently and should not be a "cookie-cutter" document for everyone to follow. This MD&A report will likely evolve over time as new information becomes available and methods to present this information are developed.

Audit Issues

The classification of MD&A as required supplementary information (RSI) is significant because it ensures auditor association with the MD&A. GASB considers the information an essential part of the financial reporting of certain entities. Accordingly, the auditor should apply limited procedures to the MD&A, and should report deficiencies in or omission of certain information. Auditors will review this information in relation to the basic financial statements, but will only comment on this narrative if there are significant differences between the basic financial statements and management's analysis.

Since the supplementary information is not audited and is not a required part of the basic financial statements, the auditor need not add an explanatory paragraph to the report on the audited financial statements to refer to the supplementary information or to the limited procedures. There are exceptions to this rule, of course. Those exceptions include (1) the supplementary information has been omitted; (2) the auditor has concluded that the measurement or presentation of the supplementary information departs materially from prescribed guidelines; (3) the auditor is unable to complete the prescribed procedures; or (4) the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines.

Effective Date and Transition

The effective date for MD&A is the same as the implementation date for GASB Statement 34 overall. However, there are transition provisions with respect to MD&A due to the requirement of comparative data. For purposes of providing comparative data for the MD&A in the first year of implementation, governments are not required to restate prior periods. If there is no restatement, then a comment must be included in MD&A that the comparative analysis will be presented when prior-year information is available. GASB does encourage however that comparative analysis be included on key elements of total governmental and enterprise funds in the first year of implementation. This is because there would be no restatements necessary to present this comparative data.